PRICEWATERHOUSECOOPERS

March 7, 2006

Via Facsimile and Extranet

Re: Independent Auditor's Notice of Preliminary Calculations for the Tobacco Litigation Master Settlement Agreement Subsection IX(c)(1) Account Payments Due April 15, 2006 – NOTICE ID: 0185

Dear Notice Party:

PricewaterhouseCoopers LLP, in its capacity as Independent Auditor ("IA") to the Tobacco Litigation Master Settlement Agreement ("MSA"), provides the following information pursuant to subsection XI(d)(2) of the MSA:

- detailed preliminary calculations ("Preliminary Calculations") of the amount due from each Participating Manufacturer ("PM") (Attachment 1a) to be paid into the Subsection IX(c)(1) Account and setting forth all the information on which the Independent Auditor relied in preparing such Preliminary Calculations, and
- a statement of any information still required by the Independent Auditor to complete its calculations.

All capitalized terms used in this notice, unless otherwise defined herein, shall be defined as in the MSA. The information contained in this notice, including all attachments, is considered confidential and should not be used for any purpose other than as contemplated in the MSA.

Calculations

Data Source:

The Independent Auditor has used net volumes[1] provided by each PM and the Alcohol and Tobacco Tax and Trade Bureau ("TTB") to determine the individual Market Shares and the Total Market to calculate the payments due April 15, 2006 with respect to the Subsection IX(c)(1) Account.

The Independent Auditor is also in the process of verifying the accuracy of the domestic Cigarettes (excluding RYO) self-reported by the PMs.

The Independent Auditor obtained tax obligation data from the TTB for those PMs providing a Release to the TTB. From the obligation data, the Independent Auditor computed net Cigarette volumes as the sum of Lines 13, 18 and 20 from Form ATF F5000.24 divided by the tax rate. In many cases, this computed amount did not agree exactly with reported volumes. Therefore, the Independent Auditor requested PMs who reported net domestic Cigarette volumes to reconcile any differences from the net volumes reported to the Independent Auditor and the net volumes computed by the Independent Auditor based on data provided from the TTB. For purposes of this preliminary calculation, if a reconciliation was not provided by a PM that self-reported net volumes, the self-reported volumes were used for such PM.

Methodology:

The subsection IX(c)(1) payment is due from the Original Participating Manufacturers ("OPM") and

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[1] For domestic manufacturers, this would be the volume of cigarettes associated with the tax amounts reflected on Lines 13, 16 (RYO portion only), 18 and 20 on Form ATF F 5000.24.

from those Subsequent Participating Manufacturers ("SPM") that have payment obligations pursuant to subsection IX(i).

Calculations of Amounts Owing by OPMs:

The calculation for the OPMs is based on each OPM's Relative Market Share of the base amount of $8,000,000,000, subject to the allocations, offsets, reductions and adjustments listed in subsection IX(c)(1) and applied in the order set forth in clauses "First" through "Thirteenth" of subsection IX(j), as follows:

- "First", the Inflation Adjustment: Pursuant to Exhibit C of the MSA, the cumulative adjustment percentage in the year 2005 is calculated on Attachment 13.
- "Second", the Volume Adjustment: The calculation of the Volume Reduction for OPMs and SPMs, pursuant to Exhibit E of the MSA, is calculated on Attachment 3.
- "Third," the Previously Settled States Adjustment: Pursuant to subsection II(kk), the Previously Settled States Reduction is 12.45000% of the results of clause "Second."
- "Fourth," the Non-Settling States Reduction: As there are no states which have an Allocable Share of more than 0.0% that are not Settling States, clause "Fourth," the Non-Settling States Reduction, is not applicable to this calculation.
- "Fifth," Allocation Among Settling States: The allocation of the adjusted Base Payments among the States, pursuant to clause "Fifth," is shown on Attachment 9a.

- "Sixth," the NPM Adjustment: The Non Participating Manufacturer ("NPM") Adjustment, performed in accordance with subsection IX(d), is shown in Attachments 4a, 4b, 4c and 4d.
- "Seventh," Allocations: The allocation among the OPMs described in clause "Seventh" is reflected on Attachment 2 (with supporting calculations in Attachments 15 and 16) and the allocation among the States described in clause "Seventh" is reflected on Attachment 9a.
- "Eighth," Offset for Miscalculated or Disputed Payments, described in subsection XI(i): Various PMs have entered into settlement agreements with the Settling States related to NPM disputes from 1999-2002. The PMs with credits that are applied to this calculation are shown in Attachment 1c.
- "Ninth," the Federal Tobacco Legislation Offset,
- "Tenth," the Litigating Releasing Parties Offset,
- "Eleventh," the offsets for claims over pursuant in subsection XII(a)(4)(B),
- "Twelfth," the offsets for claims over pursuant in subsection XII(a)(8), and
- "Thirteenth," the aggregation of the payment obligations of each PM (Attachment 1a). As communicated to the Independent Auditor by the PMs, federal tobacco-related legislation has not been enacted and a claim-over offset and/or a Litigating Releasing Parties Offset, as described in subsections XII(a)(4)(B) and XII(a)(8), has not been sought. Thus, clauses "Ninth" through "Twelfth" are not applicable.

Calculations of Amounts Owing by SPMs:

The methodology for the calculation for the SPMs, is based on subsection IX(i) of the MSA.

1. Determination of the Existence of a Payment Obligation for Each SPM:

   Pursuant to subsection IX(i), each SPM's respective share of the total market was calculated for 1997, 1998 and 2005, and is shown on Attachment 5. In calculating each SPM's respective share, the Independent Auditor used the data provided by that SPM, subject to the data limitations described below within the section "Information Relied Upon".[2] The size of the total market in any given year is calculated on Attachment 8.

2. Determination of SPM Base Payment Amount:

   For each SPM from which payment is required, the adjusted Base Amount[3] is multiplied by the ratio of its Excess Market Share to the aggregate OPM 2005 Market Share. The result of this calculation determines the individual SPM's base payment amount, as shown on Attachment 6.

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[2] Two SPMs did not provide data as of the date of this calculation. FET data was available for one of those SPMs, indicating that no Cigarettes were sold; therefore, this SPM is assumed to have zero volumes. The volume for the second SPM was assumed to be zero

[3] The calculation of the SPM base payment due uses the initial base amount due from the OPMs adjusted by the Volume Adjustment, as calculated in clause "Second" of the OPM calculation, and is shown on Attachment 6 and in accordance with subsection IX(i)(2)

3. Allocations, Offsets, Reductions and Adjustments:

    1. The Final Calculation of the IX(c)(1) payment due April 15, 2005 (Notice ID: 0157) and IX(c)(1) 2000-2005 Consolidation of Amounts Due (Notice ID: 0170) indicated that some SPMs were in an overpayment status. Overpayments are credited to the next applicable payment; hence, April 15, 2006 payment obligations are reduced for these SPMs by the amount of the overpayment as of April 15, 2006 (see Attachment 1b).

    2. Various SPMs have entered into settlement agreements with the Settling States related to NPM disputes from 1999-2002. SPMs with credits to be applied to this calculation as a result of these settlement agreements are shown in Attachment 1c.

After making the applicable offsets, reductions and adjustments, the sum of the payments due from the SPMs is shown in Attachment 1a.

Information Relied Upon:

Most of the information relied upon in performing this calculation was supplied by the PMs and their representatives and a representative of the Settling States in response to the Independent Auditor's January 13, 2006 request for information (Notice ID: 0181). In addition, certain information was obtained from other sources to the extent that it was available. In summary, the information relied upon consisted of:

- Actual shipment volumes as reported to Management Sciences Associates, Inc. and supplied to

the Independent Auditor by each OPM for the year 2005;

- 2005 operating income data supplied to the Independent Auditor by each OPM;
- Revenue data from the sales of Cigarettes after FET taxes and after certain tobacco settlement payments supplied to the Independent Auditor by each OPM;
- 1997, 1998 and 2005 Federal Excise Tax ("FET") volumes supplied to the Independent Auditor by certain PMs;
- 1997, 1998 and 2005 FET obligations (converted to volumes by the Independent Auditor) for certain PMs supplied to the Independent Auditor by the TTB on February 23, 2006;
- Total Market volumes of Domestic Cigarettes based on FET supplied to the Independent Auditor by the TTB on February 23, 2006;
- Roll Your Own ("RYO") Released to Domestic Factories without Payment of Tax related to imports for the year 2005 as reported on Statistical Releases supplied to the Independent Auditor by the TTB on February 23, 2006;
- Imported Cigarettes and Imported Roll Your Own ("RYO") Total Market Volumes for the year 2005 as published in the U.S. Customs CD "U.S. Imports of Merchandise, Statistical Month – December 2005" and as reported to the Independent Auditor in correspondence.
- Arbitrios de cigarillos volumes for the year 2005 supplied to the Independent Auditor by certain PMs;

- Puerto Rican Taxing Authority arbitrios de cigarillos volume data supplied by the Puerto Rican Taxing Authority for 1997 and 1998 on March 1, 2002[4] and for 2005 on February 13, 2006;
- Total Market Volumes for 2005 Domestic RYO as reported on Statistical Releases supplied to the Independent Auditor by the TTB on February 23, 2006;
- Returns to Importers for Cigarettes and RYO supplied to the Independent Auditor by the TTB on February 23, 2006;
- Information from the National Association of Attorneys General related to the status of the Model Statutes enacted in the Settling States;
- Annual Consumer Price Index ("CPI") for all Urban Consumers as published by the Bureau of Labor Statistics;
- Where RYO data was provided in kilograms, a conversion factor of 2.2046226 kilograms per pound was used;
- Where data was provided in number of cartons, a conversion factor of 200 cigarettes per carton was used; and
- Where data was provided in number of cases, a conversion factor of 50 cartons per case, and 200 cigarettes per carton was used.

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[4] An amendment to previously supplied Puerto Rico Taxing Authority data has not been received by the Independent Auditor as of the date of this notice. The Independent Auditor is currently working to resolve noted inconsistencies between data supplied by certain PMs and data supplied by the Puerto Rican Taxing Authority

Limitations:

The Independent Auditor encountered certain limitations with the data supplied. The data limitations are as follows:

- Not all PMs responded to the IX(c)(1) and IX(e) Information Request (Notice ID: 181) to provide their respective 2005 Cigarette or RYO volumes:
  - **Anderson Tobacco Co., LLC** – The Independent Auditor assumed 2005 volumes to be zero based on FET data supplied by the TTB on February 23, 2006.
  - **TAEBSA** – The Independent Auditor assumed 2005 volumes to be zero since this is a new SPM as of 2006 and no prior volume history has been provided by TAEBSA.
- Not all PMs that reported Domestic Cigarette volumes have provided a reconciliation between volumes reported to the Independent Auditor and volumes calculated by the Independent Auditor based on the FET data provided by the TTB.
- The Independent Auditor has received information request responses from some PMs denying that some Settling States have "continuously had a Qualifying Statute in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due [1999 – 2005], and diligently enforced the provisions of such statute during such entire calendar year" (subsection IX(d)(2)(B) of the MSA). The Settling States do not agree with this position. The Independent Auditor is not charged with the responsibility under the MSA of making a determination regarding this issue. More importantly,

the Independent Auditor is not qualified to make the legal determination as to whether any particular Settling State has "diligently enforced" its Qualifying Statute. Additionally, the Independent Auditor is aware of certain litigation that is ongoing related to this issue. Until such time as the parties resolve this issue or the issue is resolved by a trier of fact, the Independent Auditor will not modify its current approach to the calculation.

- Volumes provided by the Puerto Rican Taxing Authority for the years 1997, 1998 and 2005 do not appear to include the correct amount of Cigarettes sold in Puerto Rico and subject to arbitrios de cigarillos.
- Domestic RYO data for 1997 and 1998 is not available from the TTB.

Allocation of Payment to Beneficiaries:

All payments described herein will be credited to the Subsection IX(c)(1) Account and disbursed to the Settling States, all of which have achieved State Specific Finality. The Payments due from the PMs, as modified by the relevant Offsets, Reductions and Adjustments described above, are allocated among the Settling States based on each Settling State's Allocable Share (as stated in Exhibit A to the MSA). Based on the data available at this time, there is no reduction to a PM payment obligation resulting from the NPM Adjustment. The resulting allocations, including various adjustments, are shown on Attachment 1d.

Additional Information Required for Final Calculation

To perform the Final Calculation due no later than March 31, 2006, in accordance with subsection XI(a)(1) of the MSA, to the extent not previously provided or for which updated information becomes available, the Independent Auditor is requesting:

- If a PM has not responded fully to the IX(c) and IX(e) Information Request (Notice ID: 0181), please do so as soon as possible to the Independent Auditor;
- If a PM has additional information and/or modifications to its previous response relating to the IX(c) and IX(e) Information Request (Notice ID: 0181), please send the updates to the Independent Auditor as soon as possible.
- If a PM that has reported Domestic Cigarette volumes has not provided a reconciliation between volumes reported to the Independent Auditor and volumes calculated by the Independent Auditor based on the FET data provided by the TTB for 1997-2005, please do so as soon as possible to the Independent Auditor.
- Resolution of the question related to diligent enforcement of qualifying statues [*sic*].

In addition to the information requested from PMs above, the Independent Auditor will continue to follow up with the TTB, U.S. Customs, and the Puerto Rican taxing authority for additional updates to total market data.

Expected Disbursement

In addition, due to the volume of accounts involved in our disbursements, the Independent Auditor and the Escrow Agent request that the Settling States forward any changes in wiring instructions to the Independent Auditor as soon as they are known. Pursuant to Section 20 of the Escrow Agreement, "Whenever funds are under the terms of this Escrow Agreement required to be disbursed to a Settling State, a Participating Manufacturer, NAAG or the Foundation, the Escrow Agent shall disburse such funds by wire transfer to the account specified by such payee by written notice to all Notice Parties in accordance with Section 11 hereof at least five Business Days prior to the date of payment." Any revisions received by the Independent Auditor after instructions have been sent to the Escrow Agent require a revised letter of instruction to the Escrow Agent and a secondary confirmation from the Independent Auditor. These subsequent letters and verifications due to revised wiring instructions delay the disbursement process. Therefore, at this time, the Independent Auditor requests any updates to wiring instructions that may have been made subsequent to the October 4, 2005 disbursement.

Disputes

Pursuant to subsection XI(d)(3) of the MSA, notice of a dispute relating to Preliminary Calculations must be delivered to all Notice Parties no less than 30 days prior (before March 16, 2006) to the Payment Due Date (April 15, 2006). Any notice that is sent to the Independent Auditor should be sent to the following address:

Independent Auditor to the Master Settlement Agreement
PricewaterhouseCoopers LLP
1201 Louisiana Street, Suite 2900
Houston, Texas 77002
Attn.: Ryan Harrell
Fax number: (713) 356-6000

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This notice was sent via facsimile and Extranet on March 7, 2006. Authorized Users of the Tobacco Litigation Master Settlement Extranet may access this Notice and related Calculation on-line at http://www.tlmsa.net.

PricewaterhouseCoopers LLP

/s/ THEODORE F. MARTENS

By: Theodore F. Martens

Independent Auditor to the Master Settlement Agreement